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DE RUEHSF #1692 3550658  
ZNR UUUUU ZZH  
P 210658Z DEC 06  
FM AMEMBASSY SOFIA  
TO RUEHC/SECSTATE WASHDC PRIORITY 2992  
INFO RUEHTV/AMEMBASSY TEL AVIV PRIORITY 0142  
RUEAHLC/HOMELAND SECURITY CENTER WASHINGTON DC PRIORITY  
RUCPDOC/DEPT OF COMMERCE WASHINGTON DC PRIORITY  
RUEKJCS/SECDEF WASHINGTON DC PRIORITY

UNCLAS SOFIA 001692

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DEPT FOR EUR/NCE, PM/DTCC - BLUE LANTERN COORDINATOR

E.O. 12958: N/A  
TAGS: KOMC ETTC BU  
SUBJECT: BLUE LANTERN, APPLICATION 05-050020397:  
TRANSACTION LEGITIMATE

REF: STATE 195470

¶11. (SBU) SUMMARY: In response to reftel instructions, Poloff met with TEREM Executive Director Mariyan Yovchev on December 18 and spoke with MoD Arms Control Director Nikola Mihaylov on December 19. Post believes this transaction to be legitimate and has no information to recommend against its approval. END SUMMARY.

¶12. (SBU) TEREM is a Bulgarian defense contractor which specializes in repair of military vehicles, ships and armaments; the destruction of excess munitions; and the manufacture of industrial explosives. It also maintains a little-used capacity for the production of heavy trucks and military vehicles -- particularly transmission systems. TEREM SHC is wholly owned by the Bulgarian Ministry of Defense, and the MoD is its principal client. In recent years, the Department of State has repeatedly contracted directly with TEREM for destruction of excess arms and munitions of the Bulgarian MoD through PM WRA's Small Arms/Light Weapons destruction program.

¶13. (SBU) In 2002, TEREM was implicated in a scandal involving transfer of dual-use equipment to Iraq via Syria (03 Sofia 273). However, subsequent personnel changes at TEREM and the Ministry of Defense, as well as the firm's state-owned status, lead us to believe that this scandal does not indicate the firm to be an unreliable recipient of U.S. Munitions List (USML) items. In particular, we have no information to indicate that this transaction is anything other than legitimate.

¶14. (SBU) In response to reftel questions, Yovchev described TEREM as subcontractor to Elbit Systems on the Mi-17/Mi-24 refurbishment contract. In this role, he said, TEREM is responsible for placing all necessary orders for parts. Yovchev stated that the renovation work will be performed at TEREM's "Letets" plant in Sofia -- not in Israel. He was puzzled by reftel question on why the parts would be shipped through Israel. According to him, TEREM's plan is to ship them directly to Bulgaria from the U.S.. TEREM acknowledged understanding the restrictions that apply to USML articles, and stated categorically that the items were for Bulgarian use and not for re-export.

¶15. (SBU) On December 19, Poloff spoke with Nikola Mihaylov, head of the MoD's Arms Control Department. He confirmed that the items in reftel application were for the MoD's use, and that Major General Tsokov was the appropriate authorized signatory.

Comment:

¶6. (SBU) Bulgaria has proven itself a reliable NATO ally, and we believe that its renovation of its helicopter fleet is fully compatible with U.S. interests. Unless concerns described in paragraph 3 or discrepancies over the delivery route of reftel equipment (via Israel vs. directly to BG) are indicative of an ineligibility, Post recommends approval of the proposed transaction. END COMMENT.

KARAGIANNIS